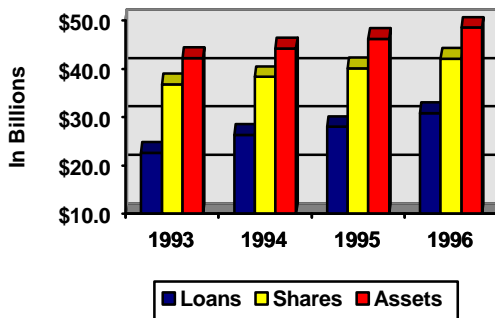


# Region II (Capital) State of the Region Report December 31, 1996

## Introduction

This report summarizes financial and operational trends of the 1,883 federally insured credit unions located in Region II (Capital) as of December 31, 1996. The Capital Region supervises credit unions throughout the mid-eastern portion of the country, including the District of Columbia, Delaware, Maryland, New Jersey, Pennsylvania, Virginia, and West Virginia.

## Region II Financial Highlights



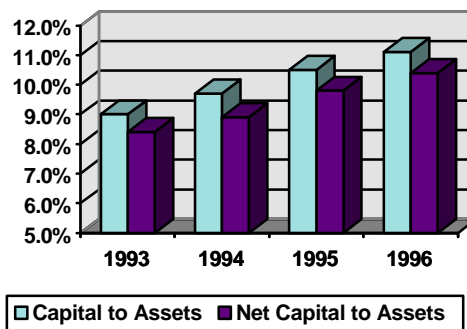
- ◆ Total assets grew another 5 percent during 1996, reaching a total of \$48.5 billion;
- ◆ Continued loan demand helped improve the total loans to total shares ratio to 73.0 percent. This represents a four-year high;
- ◆ Shares now exceed \$42 billion, increasing 5.0 percent during the year. Stable interest rates resulted in a strong shift of funds to Money

Market and Share Certificate accounts;

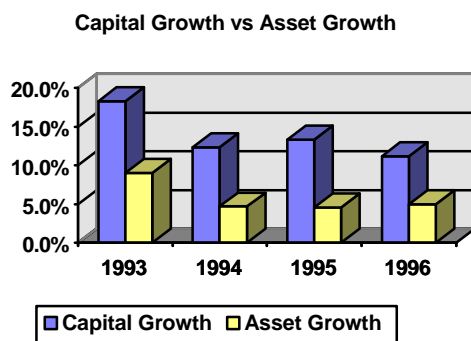
- ◆ Capital dollars increased to \$5.1 billion representing 11.1 percent of total assets, a four year high;
- ◆ Delinquent loans remained stagnant, totaling 1.0 percent of total loans;
- ◆ Net loan losses increased slightly from 0.4 percent as of year-end 1995 to 0.6 percent year-end 1996; and,
- ◆ Net income yield totaled 1.1 percent of average assets, representing a slight decline from the stable 1.2 percent the last two years.

## Capital

The graph below reveals a positive trend regarding Region II credit unions' ability to accumulate capital. Overall capital to assets ratio reached a level of 11.1 percent, up from 10.5 in 1995. After accounting for known and potential losses, year-end net capital is 10.4 percent, up from 9.8 in 1995.

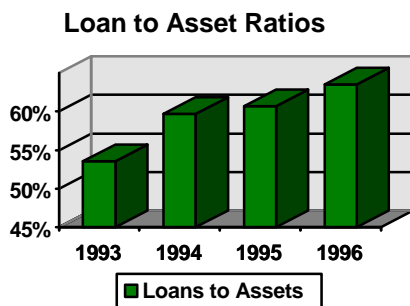


Capital growth has been relatively stable the last three years, but nonetheless, nearly doubled asset growth.



## Lending

Loan volume continued to improve in 1996, with \$17.9 billion in new loans added to the books of Region II credit unions.

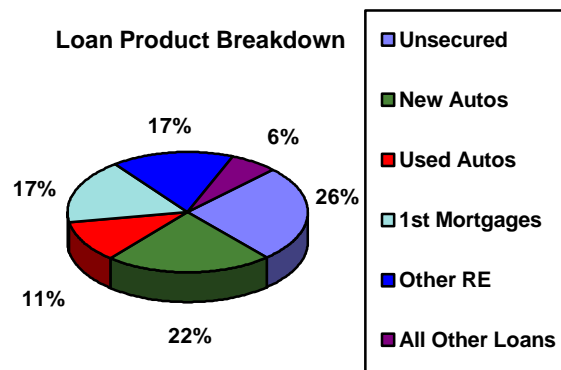


Loan dollars primarily shifted to used auto loans, which grew by 23.3 percent in 1996. Conversely, new auto loans grew by only 4.3 percent, which is a significant decrease from the 10.6 percent growth experienced with this product in 1995.

First mortgage real estate loans increased sharply this year (up 12.4 percent) and now account for 17 percent of total loans outstanding.

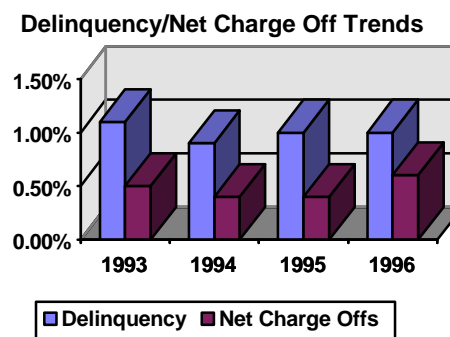
Unsecured debt remains the largest portion of credit union loan portfolios. Signature loans grew 8.5 percent, up from \$7.4 billion in 1995, to \$8.1 billion in 1996.

The following chart illustrates a complete breakdown of Region II credit unions' loan portfolios:



## Delinquency/Net Charge Off Trends

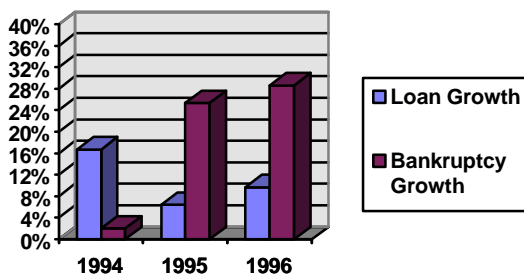
As stated earlier, the region's credit unions consistently demonstrate an ability to effectively manage the risks associated with lending. The following graph illustrates this trend.



## Bankruptcy Trends

Although delinquencies appear to be under control, the small increase in net charge offs appears to be tied to an increasing trend in member bankruptcies, which reached an all time high this year. The dollar amount of bankruptcy loans has grown by over 20.0 percent the last two years.

Bankruptcy Loan Growth vs Loan Growth



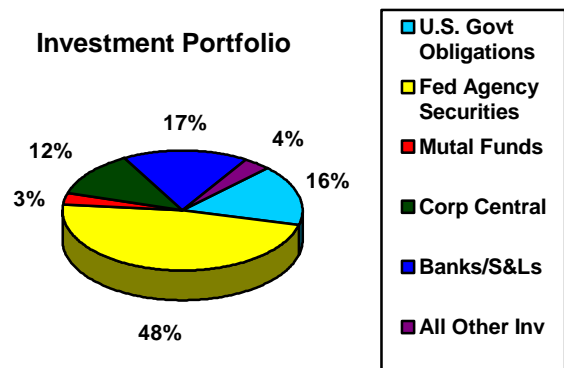
	1993	1994	1995	1996
Number of Bankruptcies	17,894	17,133	24,622	28,475

As the table above illustrates, the number of bankruptcies filed in 1996 by credit union members (Chapter 7 and Chapter 13) increased to over 28,000. Given the increasing volume of unsecured loans, this trend is likely to increase in 1997. This area will receive increased attention during future examinations.

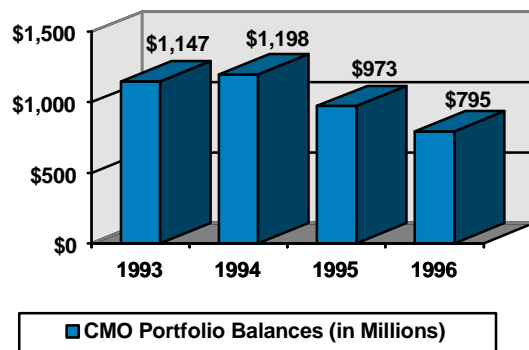
## Investments

Credit union investment portfolios declined 2.4 percent during the year. No major trends showing a shift from one investment product to another were observed during the year. The slight declines noted in U.S. Government Obligations and Banks/S&L deposits were likely used to fund additional loan demand. Individual investment portfolio

breakdowns are detailed in the following graph:

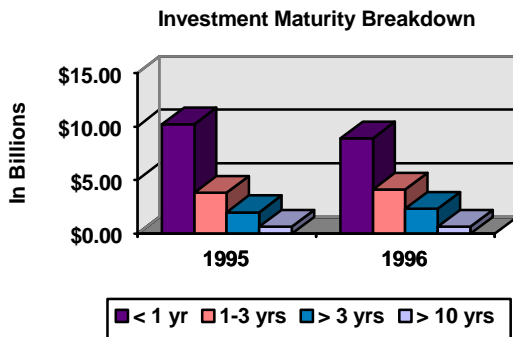


This year showed a continued decline in Collateralized Mortgage Obligation (CMO) balances. CMO balances declined by 18.0 percent during 1995 and 1996.



During 1996, there was a shift from investments with maturities of less than 1 year to each of the remaining categories. Investments greater than 3 years increased the most, 15.0 percent, with investments 1-3 years increasing 10.1 percent this year.

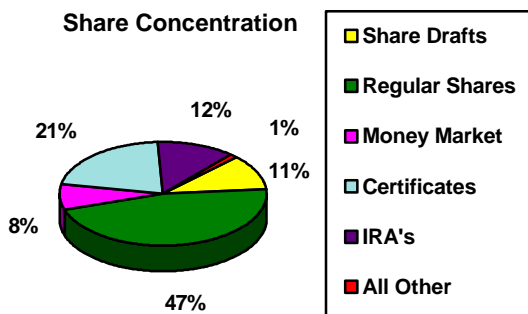
Total investment maturity breakdowns changed during 1996, as indicated in the following graph:



### Savings

Total shares grew 5.0 percent to \$42.1 billion in 1996, up 30 basis points from year-end 1995.

Significant increases were observed in Money Market Shares (up 13.9 percent), and share certificates (up 14.2 percent). The graph below illustrates the share concentration of Region II credit unions:



### Income Trends

Gross income increased to \$3.8 billion during 1996. This increase was sufficient to boost the gross income to average assets ratio from 8.0 percent in 1995 to 8.2 percent in 1996. Credit unions' Provision for Loan Loss

expense showed a 45.8 percent increase over 1995 charges. This was likely due to the increased loan losses stated earlier in this report.

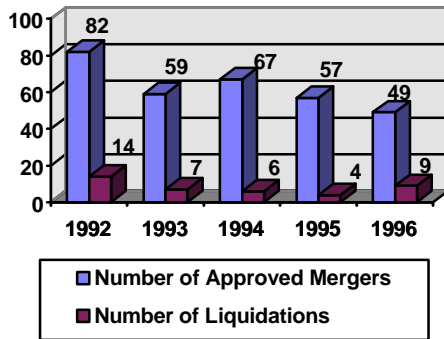
Even with this increase, Region II credit unions still generated a strong bottom line of 1.1 percent of average assets. Other income trends are outlined in following table:

Percent of Avg Assets	1993	1994	1995	1996
Yield	7.7	7.5	8.0	8.2
Cost of Funds	3.3	3.2	3.6	3.6
Net Interest Margin	3.9	3.8	3.8	3.9
Net Operating Expense	2.4	2.5	2.5	2.6
PLL Expense	0.3	0.3	0.3	0.4
Net Income	1.4	1.2	1.2	1.1

### Insurance Issues

This year new charters were issued to Aliquippa Regional SCU (#68202) and Renaissance Community Development SCU (#68195). Additionally, Shacog FCU (#24574) and Healthcare Systems FCU (#24564) were converted from state chartered credit unions to federally chartered credit unions. Throughout the year 49 credit unions were merged (1 assisted, 48 unassisted).

With the success of the Small Credit Union Preservation Program (SCUPP) over the last two years, there has been a significant decline in the number of mergers as outlined in the graph below:

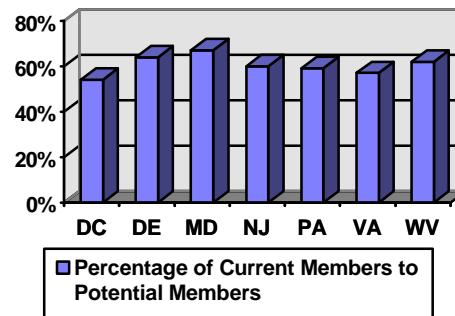


However, the impact of the AT&T court case concerning FOM expansions has already been felt by some troubled credit unions unable to qualify as an emergency merger and/or locate a common bond merger candidate. This resulted in an increase in the number of liquidations in 1996.

The Division of Insurance is currently processing 4 Federal to State Charter conversions and 7 Community Charter conversions for credit unions impacted by the recent FOM rulings in District Court. Although a stay is currently in place, and the Supreme Court has agreed to hear the case, the full impact of this issue on the credit union movement has yet to be determined. We will continue to collect and monitor all relevant data.

### Market Penetration

The following graph illustrates Region II credit unions' ability to tap into the potential membership base:



The state of Maryland has the highest member to potential member ratio (67 percent), while the District of Columbia has the lowest (54 percent).

### Summary

Region II credit unions remain well capitalized through strong net earnings and controlled loan losses. Adverse trends noted with the increasing number of bankruptcies may challenge credit union officials more in 1997. This area will be monitored closely in the coming year by Region II staff.